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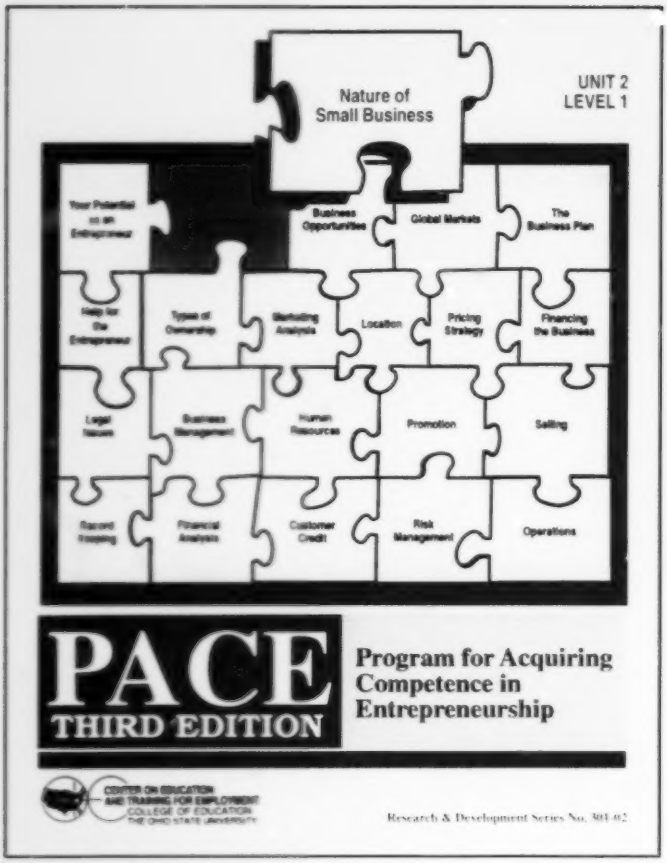
ABSTRACT

This instructor guide for a unit on small business in the PACE (Program for Acquiring Competence in Entrepreneurship) curriculum includes the full text of the student module and lesson plans, instructional suggestions, and other teacher resources. The competencies that are incorporated into this module are at Level 1 of learning--understanding the creation and operation of a business. Included in the instructor's guide are the following: unit objectives, guidelines for using PACE, lists of teaching suggestions for each unit objective/subobjective, model assessment responses, and overview of the three levels of the PACE program. The following materials are contained in the student guide: activities to be completed in preparation for the unit, unit objectives, student reading materials, individual and group learning activities, case study, discussion questions, assessment questions, and references. Among the topics discussed in the unit are the following: small business' role in history, the Small Business Administration's definition of small business, small business' place in society and the economy, effects of competition on small business, effects of the law of supply and demand on small business and profit, the importance of the profit motive and small business in the world economy, major factors contributing to small business success, and types of small businesses. (MN)



Objectives:

- Discuss the role of small business in a free enterprise system.
- Define competition, supply, demand, and profit.
- Explain the importance of small business in the world and American economies.
- Identify major factors that contribute to small business success.
- Discuss major types of business.

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INSTRUCTOR GUIDE

Unit 2

The Nature of Small Business

Level 1

HOW TO USE PACE

- Use the objectives as a pretest. If a student is able to meet the objectives, ask him or her to read and respond to the assessment questions in the back of the module.
- Duplicate the glossary from the *Resource Guide* to use as a handout.
- Use the teaching outlines provided in the *Instructor Guide* for assistance in focusing your teaching delivery. The left side of each outline page lists objectives with the corresponding headings (margin questions) from the unit. Space is provided for you to add your own suggestions. Try to increase student involvement in as many ways as possible to foster an interactive learning process.
- When your students are ready to do the *Activities*, assist them in selecting those that you feel would be the most beneficial to their growth in entrepreneurship.
- Assess your students on the unit content when they indicate they are ready. You may choose written or verbal assessments according to the situation. Model responses are provided for each module of each unit. While these are suggested responses, others may be equally valid.

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Objectives	Teaching Suggestions
1. DISCUSS THE ROLE OF SMALL BUSINESS IN A FREE ENTERPRISE SYSTEM	
What part did small business play in our history?	First, the student is being introduced to the concept of small business. The instructor should give examples of successful American personalities whose innovative ideas revolutionized the American society.
How does the Small Business Administration (SBA) define small business?	Introduce the small business as defined by the Small Business Administration.
What is the place of small business in our society?	The instructor and students should brainstorm about the importance of small business. The instructor might contact the local newspaper for bulk copies of a Sunday edition. Have the class use these papers to clip articles for help-wanted, sale, products and services, and other type of advertisements. This will help the instructor highlight the community's interest in small business and the multitude of areas in which small business is active.
2. DEFINE COMPETITION, SUPPLY, DEMAND, AND PROFIT	
How does competition affect small business?	Help the student understand the concept of competition and its importance in a free enterprise system. Outline the advantages of small business in competing with larger businesses.
How does the law of supply and demand affect competition?	Here the student is being offered the opportunity to acquaint themselves with a fundamental law of economics. The instructor should use a basic approach to help students understand how supply, demand, and competition are related to each other.
How does the law of supply and demand affect profit?	Explain the interrelation of supply and demand and profit.
How important is the profit motive in the economic system?	Discuss the concept of profit; show that profit is often the ultimate goal of many entrepreneurs. Also, illustrate situations where profit (or excessive profit) is gained illegally or unethically.

Objectives	Teaching Suggestions
3. EXPLAIN THE IMPORTANCE OF SMALL BUSINESS IN THE WORLD AND AMERICAN ECONOMIES?	
What is the importance of small business in the world economy?	Ask students to give examples of products they use that would not be available without international trade. Outline the importance of international trade for our society and the advantages for small businesses involved in importing and/or exporting.
How does small business contribute to the American economy?	Help the student understand that the health of small business is not only essential to maintaining a healthy economy, but is also the source of continued growth in the Gross Domestic Product. Highlight the fact that a country's wealth can be measured by the GDP level.
4. IDENTIFY MAJOR FACTORS THAT CONTRIBUTE TO SMALL BUSINESS SUCCESS	
What are the major factors contributing to small business success?	Use the chalkboard or an overhead to list the factors which contribute to small business success. Encourage students to add on their own other factors to complete the list.
5. DISCUSS THE MAJOR TYPES OF BUSINESS	
What are the types of small business?	Use a chart to trace the flow of goods from manufacturing through the levels of wholesaling and retailing of products and services. This will help students identify the types of businesses involved at each level of economic activity.

MODEL ASSESSMENT RESPONSES

1. The Small Business Administration (SBA) defines small business as a business owned and operated individually, and which is not dominant in its field of operation. In addition, small business has less than 100 employees or 500 (in manufacturing).

2. In a free enterprise system such as the U.S. economy, competition is the essence of market activity. Competition allows businesses to compete among themselves, provide added supply and reduce prices. More specifically, when a business enters the market, it forces the already existing firms to compete. Thus, firms in the market feel the need to produce high quality products at lower prices in order to attract and/or maintain customers.

3. In a free market economy, supply refers to the quantity of goods and services offered for sale by all businesses at a given time and for a certain price. Demand defines the desire and ability of the people to spend money for certain goods and services at a given time.

4. Profit represents the amount of excess money over expenditures earned as a result of sales of products and services.

5. Small businesses play a very important part in international trade. They allow customers to consume products manufactured in many different countries. In addition, by entering foreign markets, small businesses contribute to increased competition, and thus, lower prices and improve quality of products and services.

PACE
THIRD EDITION

Program for Acquiring Competence in Entrepreneurship

Incorporates the needed competencies for creating and operating a small business at three levels of learning, with experiences and outcomes becoming progressively more advanced.

Level 1 — Understanding the creation and operation of a business.
Level 2 — Planning for a business in your future.
Level 3 — Starting and managing your own business.

Self-contained **Student Modules** include: specific objectives, questions supporting the objectives, complete content in form of answers to the questions, case studies, individual activities, group activities, module assessment references. **Instructor Guides** include the full text of each student module and lesson plans, instructional suggestions, and other resources. **PACE, Third Edition, Resource Guide** includes teaching strategies, references, glossary of terms, and a directory of entrepreneurship assistance organizations.

For information on PACE or to order, contact the Publications Department at the
Center on Education and Training for Employment, 1900 Kenny Road, Columbus, Ohio 43210-1090
(614) 292-4353, (800) 848-4815.

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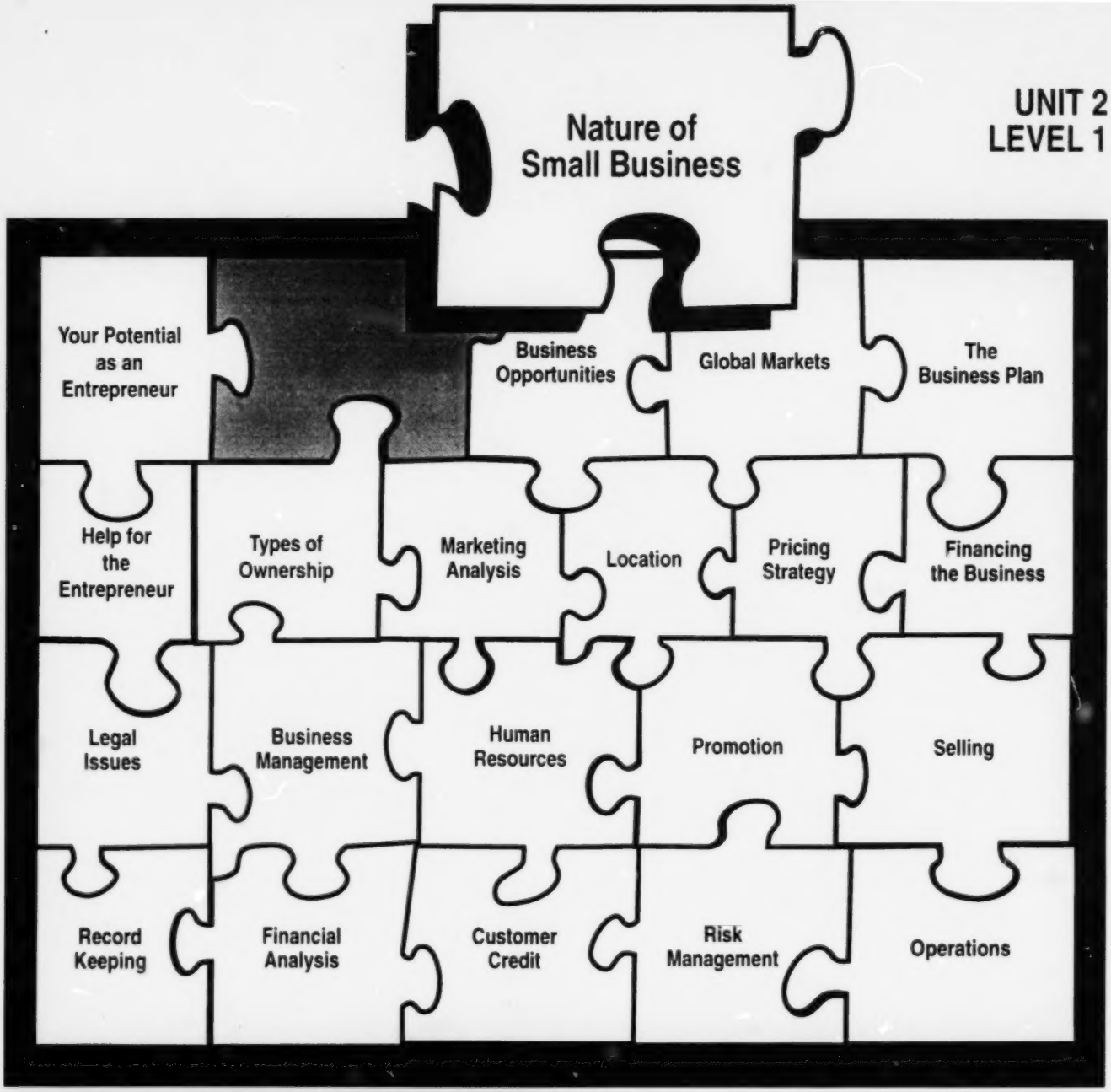

UNIT 2
LEVEL 1

PACE
THIRD EDITION

Program for Acquiring Competence in Entrepreneurship

CENTER ON EDUCATION
AND TRAINING FOR EMPLOYMENT
COLLEGE OF EDUCATION
THE OHIO STATE UNIVERSITY

Research & Development Series No. 301-02

THE NATURE OF SMALL BUSINESS

BEFORE YOU BEGIN . . .

1. Consult the *Resource Guide* for instructions if this is your first PACE unit.

2. Read What are the Objectives for this Unit on the following page. If you think you can meet these objectives now, consult your instructor.

3. Look for these business terms as you read this unit. If you need help with the meanings, ask your instructor for a copy of the PACE Glossary contained in the *Resource Guide*.

Broker
Capital
Commodity
Competition
Corporation
Demand
Depository institution
Free enterprise
Free market economy
Gross domestic product
Holding company
Non depository institution
Partnership
Profit
Security
Sole proprietorship
Standard Industrial Classification (SIC)
Supply

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THE NATURE OF SMALL BUSINESS

WHAT ARE THE OBJECTIVES FOR THIS UNIT?

Upon completion of this unit you will be able to—

- discuss the role of small business in a free enterprise system,
- define competition, supply, demand, and profit,
- explain the importance of small business in the world and American economies,
- identify major factors that contribute to small business success, and
- discuss the major types of business.

WHAT IS THIS UNIT ABOUT?

The importance of Small Business development is in the 1991 report to the President, "State of Small Business." Some 21 million small business firms accounted for all but about 300,000 total firms in the country. Our country's economic system, as we have come to know it, cannot survive without the small business person.

Small business is the part of our economic system characterized by individual "enterprise," or the willingness to try new things. Examples of small business are "mom-and-pop" grocery stores, janitorial service companies, microcomputer manufacturers, bakeries, construction companies, hardware stores, boutiques, babysitting services, consultants, and countless others.

The free enterprise system can only flourish in a nation that encourages people to try new things. What remains are all the important factors that must be considered when planning and running small businesses.

This unit introduces you to important concepts like competition, supply and demand, and profit. Some other factors that contribute to the success of a small business are discussed as well.

WHAT PART DID SMALL BUSINESS PLAY IN OUR HISTORY?

The history of America's growth cannot be separated from the history of small business. The businesses begun by the American colonists provided the economic freedom that made independence worth the fight. They provided the funds that supported the revolutionary Army and the infant government of George Washington, Thomas Jefferson, John Adams, and the other founding fathers. Small businesses resulted from the inventions of Thomas Edison, Ben Franklin, Marie Pasteur, Eli Whitney, Alexander Graham Bell, Henry Ford, and many others. In short, small businesses sparked both the capitalistic or "free enterprise" system of government and the rise of the American industrialist.

Today, small firms are the majority of all the businesses in the United States; out of 21 million businesses in 1992, more than 99.7 percent have less than 500 employees. An outlook of the nation's small business shows that the fastest growing segment is women entrepreneurs. Minority-owned businesses also increased by nearly 50 percent in the last decade.

Recent small business contributions are no less impressive:

- Small businesses produce over 50 percent of our Gross Domestic Product (private sector output).
- Small businesses are major employers giving two out of three American workers their first job.
- Small businesses generate 55.5 percent of the total employment and add jobs at a rate twice that of large firms.
- Small businesses generated more than 50 percent of all the major innovations during the last 30 years.

Each year more than 500,000 small businesses *incorporate* in the U.S. alone. The incorporations are only a small part of the total U.S. business, but are those connected with the data on failures. Compare the numbers of corporations with partnerships and sole proprietorships reported by the IRS in 1992:

Corporations	4,510,000
Partnerships	1,643,000
Sole Proprietorships	15,118,000
	21,340,900

HOW DOES THE SMALL BUSINESS ADMINISTRATION (SBA) DEFINE SMALL BUSINESS?

Defining a small business is not an easy task. Generally speaking, there is no single definition of "small business." The Office of Advocacy of the Small Business Administration, organized mostly for statistical purposes, defines small businesses as those having either under 500 or under 100 employees.

An upper limit of 100 employees may be most useful for defining small business in the retailing industry, whereas an upper limit of 500 employees is more appropriate for defining small business in the manufacturing industry.

WHAT IS THE PLACE OF SMALL BUSINESS IN OUR SOCIETY?

As stated earlier, the spirit of free enterprise is best typified by small business. Small enterprises, by way of job creation, represent the economic backbone of communities across the country. Small business has shown great resilience in the United States. Many started up and survived during economic recession periods. The rapid shift from a manufacturing economy to an information/service-oriented society has made the importance of small businesses even more crucial for our economic and social stability.

The continuously increasing number of informational and educational material on how to start and manage small business, provided by publishers and educational organizations, indicates the rising importance of small business in our society. Most daily newspapers across the country now carry a regular small business column, and the publication of new entrepreneurship books and magazines has increased considerably during the last decade.

HOW DOES COMPETITION AFFECT SMALL BUSINESS?

Competition is the lifeblood of a free-market economy; that is, any business can compete, increase supply, and reduce prices. When a business enters a market, it forces other businesses to compete. Thus, competition forces businesses to produce better products, and services at lower prices in order to earn the customer's business.

Small business has a special advantage in competing with large business because it can react and adapt its operation to changing demand more quickly. Small business often has less invested in special equipment or inventory and can more easily make changes. Small business advantages include:

- the ability to relocate relatively easily,
- lower operating costs that enable them to compete on price,
- sensitivity to changes in demand because survival depends on it,
- flexibility of employees with broad areas of responsibility, and
- faster decision making.

HOW DOES THE LAW OF SUPPLY AND DEMAND AFFECT COMPETITION?

More often, an entrepreneur is creating a product or service in an area where there is already a good supply. This leads to analyzing the market and finding demand that is not currently being met by competition. You may discover an opportunity to satisfy unmet demand by:

- lowering the price,
- improving the package,
- improving product design and performance, and/or
- providing more and better services.

HOW DOES THE LAW OF SUPPLY AND DEMAND AFFECT PROFIT?

The desire and ability of people to spend money for certain goods and services is called *demand.* *Supply* refers to the quantities of goods and services offered for sale at a given time for a certain price.

An entrepreneur looks for areas of unsatisfied demand that may give the business an opportunity for profit. For example, Canada Dry started producing Sparkling Water in a variety of flavors, such as raspberry, lemon lime, and natural, in order to satisfy customers' needs for a bottled drink that has no calories and no sodium. This new product appeals to the trend in our society for more health-oriented foods. By supplying this new type of bottled water, Canada Dry is meeting a new demand.

However, in the future, Canada Dry may not be able to supply enough of its water to satisfy all their potential customers. The law of supply and demand says that if there are not enough products to satisfy customer demand you can raise the price because people are more likely to pay a higher price to get it. In times of disaster or national emergency the government may restrict pricing, but generally prices will try to push the limit of *what the market will bear.*

HOW IMPORTANT IS THE PROFIT MOTIVE IN THE ECONOMIC SYSTEM?

In a business, you will always be selling a product or a service, or both. It will be important to set your price high enough to pay for all the costs of providing that product. The money you have left over is your *profit.* Many people measure achievement by profit or "the return on their investment." Without the hope of a reasonable profit, many entrepreneurs would stop creating new businesses. They could invest their money in banks or bonds that would give them a "profit" instead. It is easy to see how the flow of the economic system and business community is dependent on the profit motive.

WHAT IS THE IMPORTANCE OF SMALL BUSINESS IN THE WORLD ECONOMY?

When we enjoy fresh flowers of Latin America, or tropical fruits in the middle of the winter we become participants of the benefits of *international trade*. International trade is so enormous that statistics seem to be irrelevant. Although traditionally many small American businesses have ignored the international markets, in fact, there are many small American companies that already export a huge variety of products and services. Everything from bird cages and bandages to high technology equipment are exports. The Midwest in particular has some of the most active exporting communities in the United States.

Figure 1 shows 1992 GDP data of selected countries and the Economic Community. It should be noted that the U.S. GDP is larger then the GDP of all European Economic Community GDP. GDP data was calculated using the 1993 International Financial Statistics and the Europa World Year Book. The fact that the American market, the largest in the world, provides many opportunities to future entrepreneurs does not mean that the international markets should be ignored by small businesses. Some of the reasons that international trade has become more attractive to small business are as follows:

- The world economy is expected to expand faster than the American economy in the next 10 years. Currently, more than $2 trillion dollars are exchanged worldwide each year.

- There is a higher profit potential in export sales.

- Export sales provide alternatives when domestic sales are low.

- International business increases the image of the company in the domestic market.

- Smaller businesses sometimes react better to foreign competition because they are often more innovative and flexible.

The Small Business Administration offers loans and assistance programs to small businesses wanting to trade internationally.

HOW DOES SMALL BUSINESS CONTRIBUTE TO THE AMERICAN ECONOMY?

The growth of our economy is directly affected by the creativity and originality of those who open new small businesses. The 1992 "State of Small Business: A Report to the President" states that of the total number of employees in the U.S., 76.7 percent are employed by businesses with fewer than 20 employees. Such influence is illustrated by the theory of economist Joseph Schumpeter. Schumpeter's theory traces the flow of goods and profit to show that new wealth in the economy is created when individuals establish businesses outside the circular flow of normal business transactions. In these

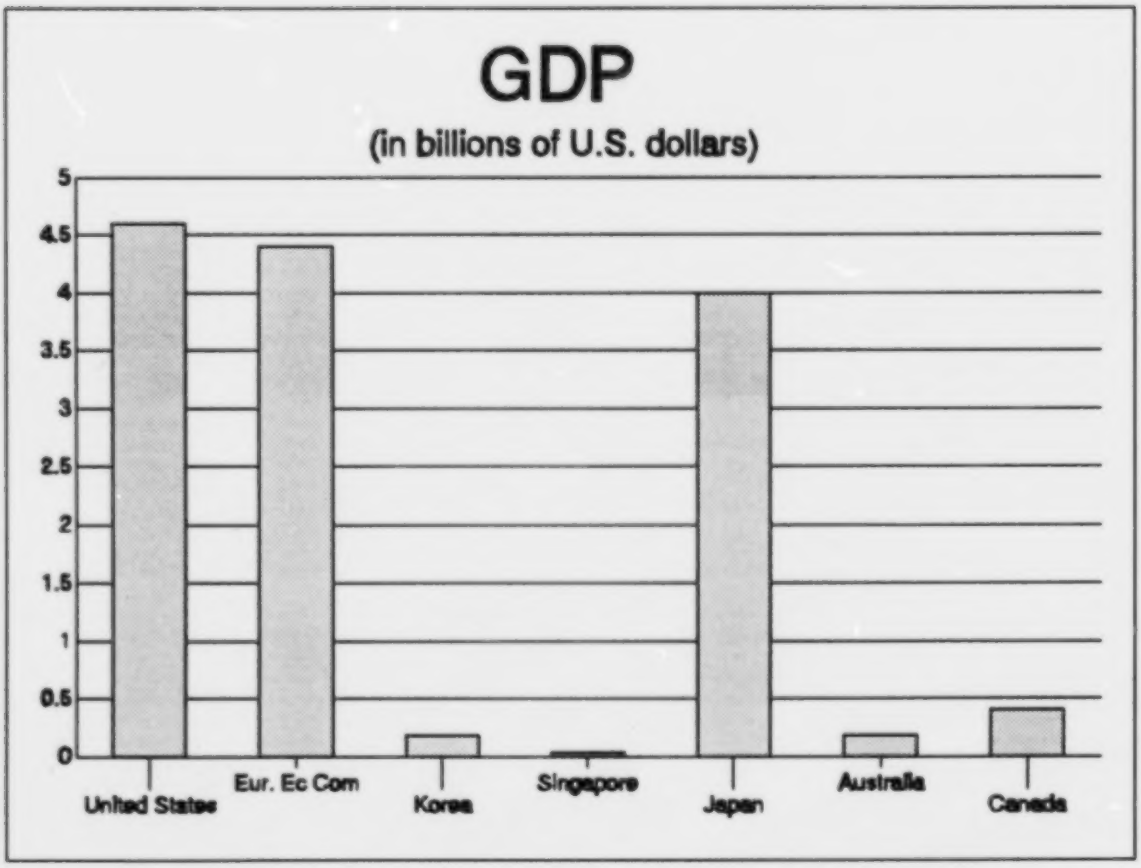

Figure 1. 1991 Shares of World GDP

businesses, individuals establish new "combinations" by creating new products and services. Schumpeter calls these new combinations "enterprises" and the people who establish them "entrepreneurs."

Modern management and finance, technology, and the worldwide increase in the education and skills of workers have created a global economy. Our domestic markets have opened the doors to international competitors. Global competition is the basic economic reality of our time. Today, products can be designed in one country, engineered in another, produced in yet a third, and distributed around the world.

WHAT ARE THE MAJOR FACTORS CONTRIBUTING TO SMALL BUSINESS SUCCESS?

As you probably already know, a wide variety of factors contribute to the success of a small business. Business conditions vary

from business to business, but there are many common keys to success. Here are the factors most often cited as contributing to a successful venture:

- The entrepreneur is experienced and competent.
- The product or service chosen is in a unique or strong position when compared to the competition.
- Sufficient capital is available.
- Planning was completed prior to the start of production/operation.
- The entrepreneur conducted a self-analysis of personal strengths and weaknesses prior to the start of production/operation.
- The use of outside expert help was obtained where needed.
- The entrepreneur is innovative and flexible, and more easily adjusts to changes.

WHAT ARE THE TYPES OF SMALL BUSINESS?

Businesses are categorized by type of activity. This is a government system, called *Standard Industrial Classification* (SIC) that divides businesses into ten types of industries:

Wholesalers move goods between manufacturers and retailers for all types of businesses including groceries, hardware stores, and gasoline stations.

Services are either provided at the customer's home or at the place of business. Examples of service businesses include: lawn care specialists, dry cleaners, accountants, and travel agencies. Services can also be provided to other businesses. Much of small business growth is in service industries.

Retailers are the largest group of small businesses. They sell goods directly to the consumer through a store location. They include businesses such as florists, grocery stores, drugstores, restaurants, fast-food establishments, gas stations, and hardware stores.

Manufacturers produce goods that the wholesalers sell to the retailers, who in turn sell the goods to you. They include steel companies, food companies, and clothes producers.

Agricultural services are provided by establishments primarily engaged in performing services such as soil preparation services, crop services, veterinary and other animal services, farm labor and management services, and landscape and horticultural services.

Construction establishments are primarily engaged in new work, additions, alterations, reconstruction, installations, and repairs. These activities are generally administered from a fixed place of business, but the actual construction work is performed at one or more different sites.

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Finance includes depository institutions, nondepository credit institutions, holding companies, other investment companies, and brokers and dealers in securities and commodities exchanges.

Insurance covers firms providing all types of insurance and insurance brokers and agents.

Real estate includes owners, lessors, lessees, buyers, sellers, agents, and developers of real estate.

Transportation services are provided by establishments furnishing services such as forwarding and packing services, and arranging passenger and freight transportation. Although these firms often have activities, workers and physical facilities distributed over an area, they always have a permanent office, shop, station, terminal, or warehouse to represent them.

ACTIVITIES

The following activities are designed to help you apply what you have learned in this unit.

INDIVIDUAL ACTIVITIES

A.

This activity provides you the opportunity to learn more about entrepreneurs who have contributed significantly to the free enterprise system. Choose an entrepreneur that you have heard about and write a one- page summary of the person and his/her enterprise (business). Examples of such entrepreneurs could include famous people like Ray Kroc (McDonalds), Jenny Craig (Jenny Craig Weight Loss Centers), Mrs. Fields (Mrs. Fields Cookies) or the lesser known success stories of Gary Dahl (Pet Rocks), Mary Flat (Eastern Onion Messenger Service), and Betty and Richard James (Slinky). Try to choose an entrepreneurial venture that is of particular interest to you.

B.

Check your local newspaper or magazines on entrepreneurship for items about small business. Clip the articles and begin building a file. This not only increases your general knowledge, but will be a valuable resource when choosing a small business for ownership or investment.

GROUP ACTIVITIES

A.

The purpose of this group activity is to increase your understanding of the factors that contribute to the success of the small business.

Work in teams of four to six. Each team needs a local business directory such as the *Yellow Pages*. Using this source of local businesses, each team member chooses a local business to call and conduct a short telephone interview. The goal is to gather information about the factors contributing to the success of small businesses. Each team designs a "script" for the interview. The script should clearly state who you are, the name of your school, and a simply stated question about what the individual entrepreneur thinks are important factors to business success.

Finally, each team creates a comprehensive list of these contributors to success. When team lists are complete, the class rejoins and posts all the factors on the board or sheets of flip-chart paper taped to the board or wall. A general discussion, facilitated by the instructor, concludes this activity.

B.

Work in teams of four to six. Each team needs at least one business telephone directory. Using the directory, each team compiles lists of local enterprises categorized by the "type" of businesses identified in this

module. Each team tries to get as many businesses for each category in the time allotted by the instructor.

The teams convene and the instructor conducts a discussion on the findings. Some possible questions for discussion are as follows:

1. Does there seem to be a large concentration of any one type of business?

2. Did the advertising of a particular type of business seem more creative, lively, conservative, aggressive, and so forth?

3. Do you see any connection with the types of businesses and the natural resources in and around your community?

4. How easy or difficult did you find it to determine the type of business with only the directory as a resource?

CASE STUDY

Kate Hansen lives in Columbus, Ohio. Kate enjoyed her houseplants but often became upset when she sprayed the foliage and got water on the walls, furniture, and floors. She tried holding a newspaper behind the plant so that the overspray would collect on the paper before could do any damage. However, the newspaper proved awkward and when it reached the saturation point, it no longer absorbed the water.

Next she took a gallon plastic bottle that held household bleach and cut it in half. She held it behind the plants as she sprayed to catch the overspray. It worked perfectly.

It was a small step from the bleach bottle to an idea for a new invention that she called Misty™. Shaping it more like a Frisbee™ to increase the area of protection, she added a handle. The prototype models were extremely successful.

Kate then contacted some marketing experts in search of *technical assistance*. They found that the houseplant market in the United States was booming. Sales of "accessories" in this market offered excellent potential.

The methods for manufacturing and distributing Misty™ that Kate and the marketing experts considered were:

- to contract with a plastics manufacturer who would produce the product for the cost of labor and equipment;
- to sell directly to retailers;
- to use brokers and distributors (wholesalers) who would sell and distribute to the retail outlets;
- to sell the rights for manufacturing and distributing to a major manufacturer/ distributor.

Kate has a unique product, a substantial market, and good opportunity to make a profit. Although she did not have the personal resources to finance the business, Kate was able to obtain capital she needed from a financial institution. But she has other decisions to make. Can you help her with some of these decisions?

DISCUSSION QUESTIONS

1. If you were the entrepreneur faced with this opportunity, what steps would you take before making the next decision?

2. Of the methods of manufacturing and distribution listed which do you think would be best for Kate?

3. Do you think that Kate's lack of business experience should hold her back? If so, why? If not, why not?

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ASSESSMENT

Read the following questions to check your knowledge of the topics presented in this unit. When you feel prepared, ask your instructor to assess your competency on them.

1. How does the Small Business Administration define small business?

2. Explain the concept of competition in the free enterprise system.

3. Explain the concept of supply and demand in the free enterprise system.

4. Explain the concept of profit in the free enterprise system.

5. Describe the importance of small business to the world's economy.

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PACE

Unit 1. Your Potential as An Entrepreneur

⇨ Unit 2. The Nature of the Small Business

Unit 3. Business Opportunities

Unit 4. Global Markets

Unit 5. The Business Plan

Unit 6. Help for the Entrepreneur

Unit 7. Types of Ownership

Unit 8. Marketing Analysis

Unit 9. Location

Unit 10. Pricing Strategy

Unit 11. Financing the Business

Unit 12. Legal Issues

Unit 13. Business Management

Unit 14. Human Resources

Unit 15. Promotion

Unit 16. Selling

Unit 17. Record Keeping

Unit 18. Financial Analysis

Unit 19. Customer Credit

Unit 20. Risk Management

Unit 21. Operations

Resource Guide

Instructor's Guide

Units on the above entrepreneurship topics are available at the following levels:

* Level 1 helps you understand the creation and operation of a business
* Level 2 prepares you to plan for a business in your future
* Level 3 guides you in starting and managing your own business